

J.C. Penney Company, Inc. 1987 Annual Report





The Management Committee: Photo at left (seated, left to right) David F. Miller, vice chairman and chief operating officer, JCPenney stores and catalog; William R. Howell, chairman and chief executive officer; Robert B. Gill, vice chairman; (standing, left to right) Robert E. Northam, senior vice president and chief financial officer; Thomas J. Lyons, executive vice president; and Richard T. Erickson, senior vice president and director of corporate personnel. Photo at right (seated, left to right) A. Scott Fralich, executive vice president and director of JCPenney stores; Rodney M. Birkins, president, catalog division; W. Barger Tygart, executive vice president and director of merchandising; (standing, left to right) Robert Capone, senior vice president and director of technical operations; John A. Wells, senior vice president and director of real estate and construction services; and Charles R. Lotter, senior vice president and secretary and general counsel. Messrs. Howell, Miller, Gill, and Lyons comprise the Office of the Chairman.

During the course of the year, an internal restructuring resulted in the establishment of four major business groups, each consisting of one of the Company's major merchandise categories: women's, men's, children's, and home furnishings. This reorganization, which brings together the buying and marketing functions for each of these merchandise categories, makes them self-contained units with leadership provided by a divisional president.

The newly elected officers of the four major business groups and catalog are shown here with merchandise displays at corporate headquarters.



Women's division: (left to right) John A. McConville, president; Marshall Beere, vice president and director of merchandise; Kenneth T. Russo, vice president and director of marketing.



Men's division: Thomas D. Hutchens, president (center), with Ralph W. LaRovere, vice president and director of merchandise (right), and J. Raymond Pierce, vice president and director of marketing.



Children's division: James L. Hailey, president (center), with Henry H. Scott, vice president and director of merchandise (left), and Andrew Cumming, vice president and director of marketing.



Home furnishings division: James J. Kennedy, president (center), with David E. Fulcomer, vice president and director of merchandise (left), and J. Thomas Arthur, vice president and director of marketing.



Catalog division: (standing, left to right) Julius L. Debbs, vice president and director of merchandising; William J. Kelly, director of advertising and publications; Frank Engels, manager of telemarketing and direct response programs; (seated, left to right) Peter J. Fenlon, vice president and director of sales and operations; William Longtine, controller; Peter R. Nelson, personnel manager. Rodney M. Birkins, president, is shown with the Management Committee (photo, upper right).

J.C. Penney Company, Inc.

Directors

M. Anthony Burns
Chairman, President and
Chief Executive Officer,
Ryder System, Inc.

Colby H. Chandler^{3,4}
Chairman and Chief Executive Officer,
Eastman Kodak Company

William M. Ellinghaus^{1,4}
Formerly President,
American Telephone and
Telegraph Company

Clifton C. Garvin, Jr.^{1,2}
Formerly Chairman and
Chief Executive Officer,
Exxon Corporation

Robert B. Gill
Vice Chairman of the Board

William R. Howell
Chairman of the Board

Vernon E. Jordan, Jr.^{2,4}
Partner, Law Firm of Akin, Gump,
Strauss, Hauer & Feld

Juanita M. Kreps^{1,4}
Economist and Educator
Formerly United States
Secretary of Commerce

David B. Meeker^{1,2,5}
Formerly Chairman of the Board,
Hobart Corporation

David F. Miller
Vice Chairman of the Board and
Chief Operating Officer,
JCPenney Stores and Catalog

George Nigh^{3,4}
Formerly Governor of Oklahoma

Jane C. Pfeiffer^{2,3}
Independent Management Consultant

Donald V. Seibert^{2,3,5}
Formerly Chairman of the Board

Joseph D. Williams⁵
Chairman and Chief Executive Officer,
Warner-Lambert Company

Walter B. Wriston^{1,3,5}
Formerly Chairman,
Citicorp and Citibank, N.A.

Boris Yavitz^{1,2,5}
Paul Garrett Professor of Public Policy
and Business Responsibility and Former
Dean, Graduate School of Business,
Columbia University

Office of the Chairman

William R. Howell
Chairman of the Board

Robert B. Gill
Vice Chairman of the Board

David F. Miller
Vice Chairman of the Board and
Chief Operating Officer,
JCPenney Stores and Catalog

Thomas J. Lyons
Executive Vice President

Executive Vice Presidents

A. Scott Frahlid
Director of JCPenney Stores

W. Barger Tygart
Director of Merchandising

Senior Vice Presidents

Robert Capone
Director of Technical Operations

Richard T. Erickson
Director of Corporate Personnel

Charles R. Lotter
Secretary and General Counsel

Robert E. Northam
Chief Financial Officer

John A. Wells
Director of Real Estate and
Construction Services

Divisional Presidents

Rodney M. Birkins
Catalog Division

James L. Hailey
Children's Division

Thomas D. Hutchens
Men's Division

James J. Kennedy
Home and Leisure Division

John A. McConville
Women's Division

Regional Presidents of JCPenney Stores

John T. Cody, Jr.
Central Region

James E. Oesterreicher
Western Region

Terry S. Prindiville
Southwestern Region

R.H. Seaman
Southeastern Region

Richard C. Sherwood
Eastern Region

Vice Presidents

Robert O. Amick
Controller

Charles L. Brown
Director of Auditing

James P. Bryant
Director of Corporate Taxes

Joseph J. DeMelio
Director of Insurance

David V. Evans
Director of Systems and Data Processing

William R. Johnson
Director of Public Affairs and
Company Communications

Robert J. Keller
Director of Construction Services

Donald A. McKay
Treasurer

C. Kenneth Ogg
Director of Operations, Services
and Inventory Management for
JCPenney Stores

Ted L. Spurlock
Director of Credit and
Consumer Banking Services

George M. Stone
Director of Government Relations

Michael Todres
Director of Distribution

Divisional Vice Presidents

J. Thomas Arthur
Director of Marketing,
Home and Leisure Division

Marshall Beere
Director of Merchandise,
Women's Division

Andrew Cumming
Director of Marketing,
Children's Division

Julius L. Debbs
Director of Merchandising,
Catalog Division

Peter G. Fenlon
Director of Catalog Sales
and Operations

David E. Fulcomer
Director of Merchandise,
Home and Leisure Division

Ralph W. LaRovere
Director of Merchandise,
Men's Division

J. Raymond Pierce
Director of Marketing,
Men's Division

Kenneth T. Russo
Director of Marketing,
Women's Division

Henry H. Scott
Director of Merchandise,
Children's Division

Charles W. Stewart
Director of Strategic Development
for JCPenney Stores and Catalog

Assistant Controllers

William J. Alcorn

Joseph W. Fox

Leo A. Gispanski

Assistant Secretary and Assistant General Counsel

Robert S. Gorin

Assistant Secretaries

Frank J. Bonet

Cornelius T. Dorans

John V. Faltermeier

Margaret R. Johnson

Richard M. Kleid

Richard P. Rubenoff

Assistant Treasurers

Robert B. Cavanaugh

Thomas A. Clerkin

John B. Hebard

Transfer Agents

J.C. Penney Company, Inc.
Securityholder Services
Pittsburgh Accounting Center
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Registrars

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006
Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange
(Ticker symbol—JCP)
Brussels and Antwerp Stock Exchanges

Supplemental Information

Copies of the Company's Form 10-K
annual report for 1987 to the Securities and
Exchange Commission and consolidated
Employer Information Reports EEO-1 for
1987 year end to the United States Equal
Employment Opportunity Commission
will be made available upon request to:

Ms. Nancee Dixon
J.C. Penney Company, Inc.
Public Relations
14841 North Dallas Parkway
Dallas, TX 75240
Phone: (214) 591-1488

Copies of J.C. Penney Financial Corpora-
tion's annual report are available from:

Mr. Thomas A. Clerkin
J.C. Penney Financial Corporation
14841 North Dallas Parkway
Dallas, TX 75240
Phone: (214) 591-2010

Inquiries about your stockholder record
should be forwarded to:

Mr. Douglas N. Stover
J.C. Penney Company, Inc.
Securityholder Services
Pittsburgh Accounting Center
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: (412) 854-9487

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long-term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which acts under certain of the Company's incentive compensation and retirement plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside directors.

The 1987 Annual Report

Our Report to you this year emphasizes, through words and pictures, four key developments in the Company's repositioning. First and most visible, the relocation of our corporate headquarters from New York City to Dallas, Texas; second, the reorganization of our merchandise and marketing departments; third, our increasing concentration on apparel, especially for women; and fourth, the upcoming in-store promotion *Expedition: India*, which we are covering in a special publication.

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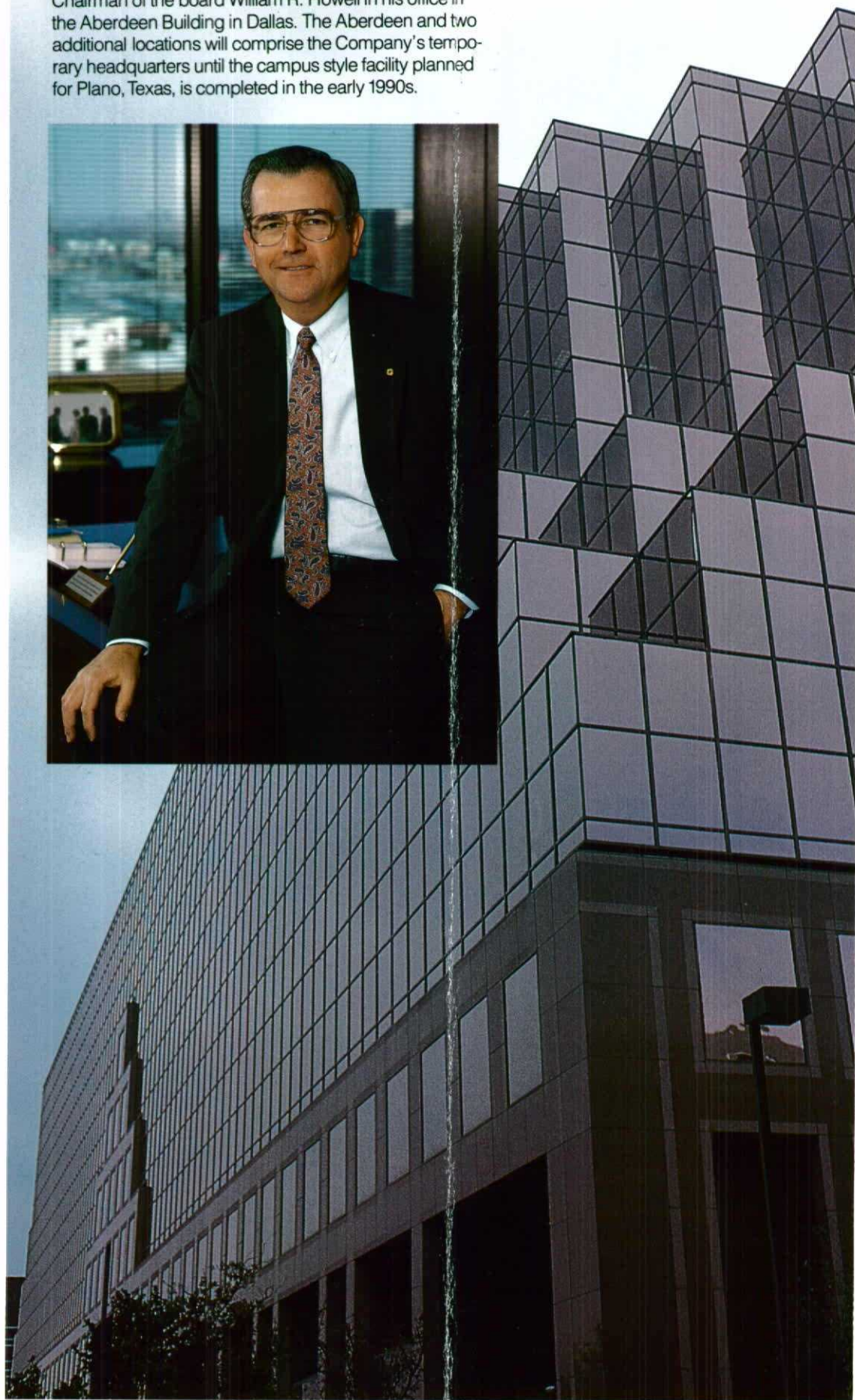
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Public Affairs

This is JCPenney

JCPenney is a major retailer, with stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets predominantly family apparel and home furnishings, drug store merchandise, and insurance.

On the covers: (Front, left to right): Of Indian origin, her coordinated outfit of 100% cotton and his 100% Matka silk sportcoat; career dressing by Worthington; classic Stafford pinstripe suit; flirty dress of rayon challis, a best seller from catalog. (Rear, left to right): Multi-colored 100% cotton halter dress from the *Expedition: India* collection; boots, jeans, and a Cowboys' sweater, a relaxed look in JCPenney's new headquarters city; modular dressing that can be casual or dress-up by *UNITS*, a specialty store group acquired by JCPenney in 1987; a dress of cotton Lycra, cinched at the waist, a typical look from our new in-store *MIXIT* shops.

Chairman of the board William R. Howell in his office in the Aberdeen Building in Dallas. The Aberdeen and two additional locations will comprise the Company's temporary headquarters until the campus style facility planned for Plano, Texas, is completed in the early 1990s.



To Our Stockholders:

Record Performance

For JCPenney, 1987 was a year of record sales and earnings. Net income rose 27 per cent to \$608 million from the previous high of \$478 million in 1986. Earnings per share amounted to \$4.11, as compared with \$3.19 in the prior year.

Sales were generally good during most of 1987, reaching a high of \$15.3 billion, a 4 per cent increase over a year ago. Retail operations achieved record results despite pressures on fourth quarter gross margin due to the increasingly competitive retail environment during the holiday season.

Our catalog business continued to be an area of great strength, with profits exceeding last year's record levels. Sales rose 11 per cent to \$2.6 billion, reflecting a strong response by catalog's target consumers to its sound merchandise and marketing strategies.

During the first quarter, the Company declared a two-for-one split of its common stock and increased the quarterly dividend 19 per cent, demonstrating confidence in JCPenney's prospects for continued profitable growth.

Another reflection of confidence was the Company's purchase during the year of 12.7 million shares of common stock on the open market at a cost of \$581 million, or \$45.85 per share. This represents more than half of the authorized, ongoing buy back program of up to 20 million shares.

Repositioning Strategies

Significant progress in the implementation of JCPenney's repositioning strategies was achieved in 1987. Our merchandising organization was restructured during the year, establishing four business groups with each focusing on a major merchandise category: women's, men's, children's, and home furnishings. The new structure, which brings together the buying and marketing functions for each of these merchandise categories, has as its goal improved coordination, team decision-making, and strengthened communications lines.

In 1988, we will implement plans to expand our women's apparel offerings in retail store space made available by the discontinuance of home electronics, hard sporting goods, and photographic equipment. In addition, our women's departments will be enhanced to reflect a sharper focus on lifestyle and will be more like specialty shops in some cases.

This further adjustment of our merchandise mix, which places greater emphasis on family apparel than ever before, is a response to identified consumer buying patterns as exhibited in regional shopping mall environments. This decision was motivated primarily by consumer priorities and is firmly supported by the exceptional profit opportunities provided by apparel lines.

The relocation of the Company's corporate headquarters from New York to Dallas for both economic and strategic reasons has proceeded smoothly and is on schedule. The move, which is scheduled for completion during 1988, is aimed at enhancing JCPenney's ability to respond quickly and effectively to the ever changing needs and wants of the nation's consumers. The new location will be more central to the Company's store, district, and regional operations nationwide.

Our television broadcast system has been expanded so that a majority of the merchandise sold in JCPenney stores is now selected by merchandisers from each store. Using this approach, markets can tailor assortments according to the interests and areawide needs of their customers.

Financial Highlights (In millions except per share data)

For the Year	1987	1986	1985
Sales	\$15,332	\$14,740	\$13,747
Net income	\$ 608	\$ 478	\$ 397
Per share*	\$ 4.11	\$ 3.19	\$ 2.66
Dividends per share*	\$ 1.48	\$ 1.24	\$ 1.18

*Adjusted for the two-for-one stock split.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Friday, May 27, 1988, at the Sheraton Park Central Hotel in Dallas, Texas. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 21, 1988.

All of our approximately 700 JCPenney stores serving metropolitan markets will be equipped with satellite receiving dishes by year end 1988, virtually eliminating travel to other stores for viewing broadcasts. While most broadcasts focus on merchandise assortments, others concentrate on merchandise presentation and national advertising.

Subsidiaries and Specialty Businesses

Our Belgian operations were sold during the year to GB-INNO-BM, S.A., the largest retailing company in Belgium. This sale represents the Company's decision to place greater resources and attention on our apparel business in the U.S. market.

JCPenney Financial Services, consisting primarily of our insurance operations, had net income of \$26 million in 1987, a \$12 million improvement over the previous year. Drug stores' profits declined slightly after five consecutive years of record earnings due to lower gross margin and the impact of costs associated with new store openings.

During the year, the Company invested in specialty retailing ventures which have profitable growth potential. These new businesses include the rapidly expanding *Units* women's specialty shops, with 54 stores in 20 states; the new *In Detail* bed and bath shops, with the first two stores opened in early 1988; *Mixit* shops for juniors currently in nearly 100 JCPenney stores, with freestanding shops planned for the future; and *Tezio* cosmetics shops, with 12 stores operating in six states.

Early in 1988, after several months of testing, the Company's Telaction subsidiary began to make available its interactive television program to consumers in suburban Chicago. Telaction allows cable television subscribers, using a touch tone telephone, to purchase products and services from approximately 40 national and international companies. Introduction in the Chicago area is planned for the remainder of the year.

We have established a joint venture with Shop Television Network, Inc. (STN) for a new home television shopping program that was launched on cable television during the fall of 1987. The program, which is currently broadcast via satellite to more than 45 markets, is in half hour segments, using celebrity hosts and product experts and showcasing quality, brand name merchandise.

Acknowledgements and Outlook

During the year, M. Anthony Burns, chairman, president, and chief executive officer of Ryder System, Inc., was elected a director of the Company.

We wish to express our appreciation to Edward J. Mortola, chancellor, Pace University, who retired from our board of directors during 1987, for his outstanding service.

We also wish to recognize the contributions of Ralph B. Henderson, executive vice president and member of the office of the chairman, who retired since our last Report.

Moving forward, we are confident that 1988 will be another year of significant progress in the profitability of JCPenney stores and catalog. The merchandise mix changes taking place in our retail stores will have a positive impact on margins. In addition, the decentralization of our merchandising strategies made possible by our direct broadcast system will continue to foster our earnings growth. Consumer spending and the economic environment provide a somewhat uncertain climate for our industry, but we believe that the Company is well positioned for the future.

We take this opportunity to express our sincere appreciation to all of our dedicated associates whose efforts have contributed to a productive year. We also thank our customers, suppliers, and stockholders for their continued support and loyalty.

Warmest regards,



William R. Howell
Chairman of the Board

March 29, 1988

Statement of Income (In millions except per share data)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

For the Year	1987	1986	1985
Sales	\$15,332	\$14,740	\$13,747
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	10,152	9,786	9,240
Selling, general, and administrative expenses	3,783	3,679	3,454
Interest expense, net	300	350	370
Nonrecurring items	172	—	—
Total costs and expenses	14,407	13,815	13,064
Retail income before income taxes	925	925	683
Income taxes	356	428	297
Retail income	569	497	386
Income of unconsolidated subsidiaries	39	33	11
Income before extraordinary charge	608	530	397
Extraordinary charge on debt restructure, net of income taxes of \$49	—	52	—
Net income	\$ 608	\$ 478	\$ 397
Per share			
Income before extraordinary charge	\$ 4.11	\$ 3.53	\$ 2.66
Extraordinary charge, net of income taxes	—	.34	—
Net income	\$ 4.11	\$ 3.19	\$ 2.66

Statement of Reinvested Earnings (In millions)

Reinvested earnings at beginning of year	\$3,379	\$3,122	\$2,890
Net income	608	478	397
Unrealized change in equity securities and translation adjustment	(4)	7	11
Retirement of common stock	(514)	(42)	—
Two-for-one stock split	(38)	—	—
Dividends declared	(218)	(186)	(176)
Reinvested earnings at end of year	\$3,213	\$3,379	\$3,122

See Summary of Accounting Policies on pages 7 and 8 and 1987 Financial Review on pages 8 through 18.

Balance Sheet (In millions)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

Assets	1987	1986	1985
Current assets			
Cash and short term investments of \$84, \$534, and \$136	\$ 112	\$ 639	\$ 158
Receivables, net	4,536	4,614	4,504
Merchandise inventories	2,350	2,168	2,298
Prepaid expenses	132	111	117
Total current assets	7,130	7,532	7,077
Investment in and advances to unconsolidated subsidiaries	381	406	372
Properties, net of accumulated depreciation and amortization of \$1,346, \$1,275, and \$1,151	2,910	2,919	2,812
Other assets	421	331	261
	\$10,842	\$11,188	\$10,522
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,595	\$ 1,489	\$ 1,282
Short term debt	955	597	740
Current maturities of long term debt	—	484	—
Deferred taxes, principally installment sales	136	142	701
Total current liabilities	2,686	2,712	2,723
Long term debt	2,608	2,655	3,099
Deferred taxes	1,375	1,481	649
Stockholders' equity			
Common stock, par value 50¢: Authorized, 500 million shares— issued, 138, 150, and 149 million shares	960	961	929
Reinvested earnings	3,213	3,379	3,122
Total stockholders' equity	4,173	4,340	4,051
	\$10,842	\$11,188	\$10,522

See Summary of Accounting Policies on pages 7 and 8 and 1987 Financial Review on pages 8 through 18.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable cost, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The financial statements have been examined by independent certified public accountants whose report appears on page 5.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent certified public accountants for the purpose of conducting the annual examination of the Company's financial statements. Company personnel, including internal auditors, and the independent certified public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Statement of Cash Flows (In millions)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

For the Year	1987	1986	1985
Operating activities			
Income before unconsolidated subsidiaries and extraordinary charge	\$ 569	\$ 497	\$ 386
Deferred taxes	(112)	273	288
Depreciation and amortization	241	229	212
Amortization of original issue discount	52	46	39
Nonrecurring items	172	—	—
Change in cash from:			
Customer receivables	70	(51)	(449)
Inventories, net of trade payables	(170)	261	111
Other assets and liabilities, net	(89)	(38)	67
	<u>733</u>	<u>1,217</u>	<u>654</u>
Investing activities			
Capital expenditures	(376)	(348)	(422)
Investments in and advances to unconsolidated subsidiaries	72	20	(33)
Other investments	(55)	(11)	(97)
	<u>(359)</u>	<u>(339)</u>	<u>(552)</u>
Financing activities			
Increase (decrease) in short term debt	427	(143)	(62)
Issuance of long term debt	202	597	352
Payments of long term debt	(728)	(618)	(252)
Extraordinary charge on retirement of debt	—	(39)	—
Common stock (retired) issued, net	(589)	(11)	7
Dividends paid	(213)	(183)	(176)
	<u>(901)</u>	<u>(397)</u>	<u>(131)</u>
Increase (decrease) in cash and short term investments	<u>\$ (527)</u>	<u>\$ 481</u>	<u>\$ (29)</u>
Supplemental cash flow information			
Interest paid	\$ 281	\$ 325	\$ 350
Interest received	\$ 24	\$ 27	\$ 22
Income taxes paid	\$ 402	\$ 95	\$ 21

See Summary of Accounting Policies on pages 7 and 8 and 1987 Financial Review on pages 8 through 18.

Accountants' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have examined the balance sheet of J.C. Penney Company, Inc. and Consolidated Subsidiaries as of January 30, 1988, January 31, 1987, and January 25, 1986, and the related statements of income, reinvested earnings, and cash flows for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J.C. Penney Company, Inc. and Consolidated Subsidiaries at January 30, 1988, January 31, 1987, and January 25, 1986, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

345 Park Avenue, New York, N.Y.
February 18, 1988

Peat Marwick Main & Co.

Management's Discussion and Analysis of Results of Operations and Financial Position

Results of operations (Per cent of sales)	1987	1986	1985
Domestic sales, per cent increase	4.6 *	6.3	2.4
Gross margin	33.8	33.6	32.8
Selling, general, and administrative expenses	24.7	25.0	25.1
Interest expense, net	2.0	2.3	2.7
Retail income before income taxes and nonrecurring items	7.1	6.3	5.0
Income before nonrecurring and extraordinary items	4.6	3.6	2.9

* Comparable 52 week basis increase, 5.9 per cent.

Income before nonrecurring and extraordinary items increased 33.2 per cent to a record \$706 million, as compared with \$530 million in 1986 and \$397 million in 1985. The Company's retail operations, particularly catalog, achieved record results in 1987. The increase was attributable to higher sales volume coupled with slightly higher gross margin and tight expense control. In 1986, income increased due to the Company's emphasis on inventory management, expense control, and the outstanding performance of the catalog operation. Income declined in 1985 due principally to the impact of the LIFO method of inventory valuation.

Nonrecurring items in 1987, on a pre-tax basis, were \$172 million and consisted of \$140 million for the corporate headquarters relocation and a \$32 million loss on the sale of the Belgian operations. On an after-tax basis, these nonrecurring items reduced the Company's earnings by \$98 million, or 66 cents per share. Despite these nonrecurring items, net income in 1987 was \$608 million, up 14.7 per cent from last year's record \$530 million before an extraordinary charge.

Income per share benefited from fewer shares of common stock outstanding, due to the stock buy back program. On a per share basis, net income before nonrecurring and extraordinary items was \$4.77, up from \$3.53 in 1986 and \$2.66 in 1985.

During 1987, the Company continued to sharpen its focus on the lines of merchandise which offer superior profit opportunities: women's, men's, and children's apparel and soft home furnishings. In the latter part of 1987, the Company announced the phasing out of home electronics, photography, and hard sporting goods merchandise in JCPenney stores. In the first nine months, gross margin, as a per cent of sales, improved significantly due to the greater emphasis on family apparel. However, fourth quarter gross margin declined because of higher markdowns as the retail environment became increasingly competitive during the holiday selling season. Despite the decline in fourth quarter gross margin, 1987 margins exceeded the previous year by 20 basis points. The LIFO method of inventory valuation had a negative effect on gross margin in 1987. The LIFO charge amounted to \$45 million, as compared with \$10 million in 1986 and \$16 million in 1985. The level of general merchandise inflation was higher in 1987 than in the previous two years. Gross margin improved in 1986 primarily as a result of lower markdowns. The 1985 gross margin decreased due to the LIFO charge as compared with a LIFO credit in the previous year.

Selling, general, and administrative expenses were well controlled in each of the last three years. SG&A expenses increased 2.8 per cent in 1987, 6.5 per cent in 1986, and 2.4 per cent in 1985. Salaries and personnel related costs as well as advertising expenses declined as a per cent of sales in each of the last three years.

Interest expense for 1987 declined as a result of benefits realized from the debt restructure program, lower average borrowing levels, and lower interest rates. In 1986, interest expense decreased due to lower interest rates and benefits realized from the debt restructure program. Interest expense increased in 1985 as a result of higher borrowing levels.

The effective income tax rate for 1987 was 38.5 per cent compared with 46.3 per cent and 43.5 per cent for 1986 and 1985, respectively. The reduction was principally due to the change in the statutory rate to 39 per cent in 1987 from 46 per cent in 1986 and 1985. Additionally, as a result of the Tax Reform Act of 1986, income taxes were reduced \$17 million in 1987 due to the payment of a portion of the taxes on installment sales previously deferred at higher tax rates. See pages 17 and 18 for more information.

Earnings of the unconsolidated subsidiaries, consisting of life and casualty insurance, the real estate development company, and the bank, improved during the year due principally to more favorable underwriting experience in the casualty insurance operation.

Financial Position. The Company continued to generate sufficient cash internally in 1987 to meet most of its operating, investing, and financing requirements. Cash generated through operating activities declined in 1987 due primarily to the impact of the Tax Reform Act of 1986 and the buildup of inventories. The Tax Reform Act of 1986 eliminated the deferral of gross profit on revolving credit sales and further provided that the amount of tax deferred as of the end of fiscal year 1986 be repaid over the four years 1987 to 1990.

Cash flows from operations in 1987, however, were more than sufficient to cover all of the Company's investing activities as well as dividend requirements. In 1987, the Company continued its debt restructure program and, in addition, began to restructure its equity by means of a stock buy back program. These two programs required cash of about \$1.3 billion.

Merchandise inventories increased to \$2.4 billion in 1987, up 8 per cent, from the low levels in 1986 but still below the level in 1984. The 1986 and 1985 merchandise inventories decreased 6 per cent and 4 per cent, respectively. In 1987, the Company continued to concentrate its merchandise mix on women's, men's, and children's apparel and soft home furnishings.

Customer accounts receivable were \$4.2 billion at the end of 1987, or about 2 per cent below the level at the end of 1986. This compares with increases in customer accounts receivable in 1986 and 1985 of 1 per cent and 12 per cent, respectively. Towards the end of 1986, customers' use of the JCPenney credit card began leveling off, and in 1987, credit usage declined.

Property, plant and equipment, at \$2.9 billion, was about even with last year, primarily due to the sale of the Belgian operations. Capital expenditures in 1987 were \$376 million, \$26 million over the level in 1986 but lower than the levels in the last several years, which averaged more than \$450 million per year. The Company has substantially completed its major store modernization program that began in the early 1980s. The 1987 capital expenditures include the acquisition of land for the new headquarters.

Total debt at the end of 1987 was \$3.6 billion, as compared with \$3.7 billion at the end of 1986. Also, average debt for the year was lower than last year. During 1987, the Company continued its debt restructure program and repaid a total of more than \$700 million including four issues which were called in 1986 and classified as current maturities in that year. In 1987, the Company issued \$200 million of 9.375 per cent Notes due 1998.

Stockholders' equity was \$4.2 billion at the end of 1987, a decline of \$167 million from last year. Stockholders' equity was reduced in 1987 by \$581 million from purchases in the open market of its common stock. In 1987, the Company began a stock buy back program totaling up to 20 million shares. By the end of 1987, the Company had purchased 12.7 million shares of its common stock.

The Company anticipates that the major portion of its cash requirements during the next few years to finance its operations and expansion and to repay amounts borrowed will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Additional Information. For additional discussion and analysis of 1987, see the 1987 Financial Review on pages 8 through 18.

Summary of Accounting Policies

The dominant portion of JCPenney's business consists of selling merchandise and services to consumers through stores, including catalog operations.

Basis of Consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and its subsidiaries, except for the insurance operations, the bank, and real estate development operations, which are accounted for on the equity method. The combined income of these unconsolidated operations is included as a single item in the statement of income. Intercompany transactions have been eliminated in consolidation.

The Financial Accounting Standards Board issued Statement No. 94 (Consolidation of All Majority-owned Subsidiaries) in 1987 requiring generally that all majority owned subsidiaries be consolidated. This standard is effective in 1988, and accordingly, the assets, liabilities, revenues, and expenses of the insurance companies, the bank, and real estate development operations will be combined with the Company's financial statements in fiscal year 1988.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1987 ended January 30, 1988, 1986 ended January 31, 1987, and 1985 ended January 25, 1986. They comprised 52 weeks, 53 weeks, and 52 weeks, respectively. The accounts of J.C. Penney Life Insurance Company, J.C. Penney Casualty Insurance Company, and the JCPenney National Bank are on a calendar year basis.

Sales. Sales include merchandise and services, net of returns, and exclude sales and value added taxes.

Finance Charge Revenue. Finance charge revenue arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Short Term Investments. Excess cash invested in instruments with maturities of three months or less from time of investment is included in short term investments.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, and 10 per cent for selling fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

JCPenney Financial Services' policy acquisition costs, which are primarily marketing and underwriting expenses related to generating new insurance policies, are deferred and, subject to recoverability, are amortized over the expected premium paying period of the related policies. The maximum period is 15 years for life and health policies and five years for automobile and homeowners policies.

1987 Financial Review

Nonrecurring items reflected in the statement of income in 1987 comprise a pre-tax provision of \$140 million for the aggregate cost of relocating the corporate headquarters to Dallas, Texas. The provision covers primarily personnel relocation costs and severance.

Also, the Company's Belgian business was acquired by GB-INNO-BM, for which the Company received cash and GB common stock. This transaction resulted in a pre-tax loss of \$32 million.

The combined effect of these nonrecurring items reduced after-tax income by \$98 million, or 66 cents per share.

Sales in 1987 were \$15,332 million, an increase of 4.0 per cent over \$14,740 million in 1986. Fiscal 1987 comprised 52 weeks compared with 53 weeks in 1986. On a comparable 52 week basis, sales in 1987 were 5.4 per cent higher than in 1986.

Sales (In millions)	1987	Per cent increase 1987 vs. 1986		1986	Per cent increase 1986 vs. 1985		1985
		All units	Com- parative units		All units	Com- parative units	
JCPenney stores	\$13,428	4.2	3.9	\$12,888	6.0	6.1	\$12,165
Catalog	2,585	10.9	11.0	2,332	16.6	17.9	2,000
Intracompany elimination	(2,033)	n/a	n/a	(1,830)	n/a	n/a	(1,531)
Total JCPenney stores and catalog	13,980	4.4	3.9	13,390	6.0	6.1	12,634
Drug stores	791	8.9	7.2	727	13.4	12.5	641
Domestic sales	14,771	4.6	4.1	14,117	6.3	6.4	13,275
Belgian operations*	561			623			472
Total	\$15,332			\$14,740			\$13,747

The intracompany elimination represents the duplication of those catalog sales made through JCPenney stores and also included in Catalog. Comparative units are those in operation throughout both the current and prior year. For further analyses of sales, see the discussion below and the Five Year Operations Summary on page 20.

*Sold in November 1987.

In the latter part of 1987, the Company announced the phasing out of home electronics, photography, and hard sporting goods merchandise in JCPenney stores. These lines will continue to be offered through Catalog. Sales of JCPenney stores, excluding these lines, were as follows:

	1987	1986	1985
Total sales of JCPenney stores	\$13,428	\$12,888	\$12,165
Discontinued lines	568	720	750
Sales of continuing lines	\$12,860	\$12,168	\$11,415
Per cent increase	5.7%	6.6%	2.1%

JCPenney Stores

JCPenney stores' sales (In millions)	1987	Per cent increase (decrease) 1987 vs. 1986		1986	Per cent increase (decrease) 1986 vs. 1985		1985
		All units	Com- parative units		All units	Com- parative units	
Metropolitan markets							
Department stores	\$10,646	4.9	3.9	\$10,150	6.6	5.8	\$ 9,524
Soft line stores	817	(4.0)	3.0	851	(.8)	6.0	858
Geographic markets	1,965	4.1	4.6	1,887	5.9	7.9	1,783
Total	\$13,428	4.2	3.9	\$12,888	6.0	6.1	\$12,165

Metropolitan markets are served by two types of stores: department stores and soft line stores. Department stores are situated primarily in premier regional comparison shopping centers and concentrate on family apparel and home furnishings. Soft line stores serve the more densely populated, mature suburbs and urban sectors of these markets.

The Company had 577 department stores in operation at year end and an aggregate of 89 million gross square feet of space. Sales per gross square foot were approximately \$118 for stores in operation throughout 1987. The Company continues to open new stores as opportunities arise and to close stores that do not meet performance objectives. During 1987, 11 department stores were opened and eight were closed.

At year end, the Company had 122 soft line stores in operation and an aggregate of 6 million gross square feet of space. Sales per gross square foot were approximately \$135 for stores in operation throughout 1987. During 1987, one soft line store was opened and 12 were closed.

Metropolitan market stores' profit increased in 1987 due to higher sales volume and the continuation of expense controls. Profit increased in 1986 and 1985 as a result of improved gross margin and expense controls.

Geographic market stores are located in nonmetropolitan areas and in satellite towns within metropolitan areas. These stores emphasize family apparel and soft home furnishings.

At year end, the Company had 679 geographic market stores in operation and an aggregate of 18 million gross square feet of space. Sales per gross square foot were approximately \$106 for geographic market stores in operation throughout 1987. During 1987, 20 geographic market stores were opened and 37 were closed. The Company continues to expand into new markets and close unproductive stores.

Geographic market stores' profit increased in 1987 due to higher sales volume coupled with tight expense controls. Profits increased in 1986 and 1985 due to higher gross margin and expense controls.

Catalog

Catalog operations expand the Company's retailing capabilities by offering a wide range of merchandise to complement the stores' assortment. The six catalog distribution centers carry family fashions, home furnishings, automotive, and leisure merchandise including home electronics. Virtually all catalog orders are handled by 14 catalog telephone centers, whose highly trained personnel, aided by such computer provided information as merchandise availability, offer superior service to customers.

Most catalog orders are delivered within 48 hours. They are shipped to catalog departments, customers' homes, and to catalog sales merchants. Sales merchants operate independent businesses located in communities not otherwise serviced by JCPenney stores. Catalog departments are located in all JCPenney stores, selected Drug stores, and in freestanding facilities.

The Company publishes two general catalogs: Fall & Winter and Spring & Summer. In addition, a Christmas Catalog and other seasonal, promotional, and specialty media are produced.

Catalog sales (In millions)	1987	Per cent increase 1987 vs. 1986		1986	Per cent increase 1986 vs. 1985		1985
		All units	Com- parative units		All units	Com- parative units	
JCPenney stores							
Metropolitan markets							
Department stores	\$1,216	12.8	12.2	\$1,079	22.3	21.8	\$ 882
Soft line stores	231	8.3	10.9	213	15.9	18.6	184
Geographic markets	586	9.0	11.5	538	15.7	21.7	465
	2,033	11.2	11.9	1,830	19.5	21.4	1,531
Drug stores	84	11.5	8.2	75	23.4	19.7	61
Other, principally outlet stores	468	9.4	n/a	427	4.5	n/a	408
Total	\$2,585	10.9	11.0	\$2,332	16.6	17.9	\$2,000

Catalog's profit increased dramatically in both 1987 and 1986 due to sharp increases in sales combined with improved gross margin and tight controls over advertising and distribution center expenses. Catalog's profit declined in 1985 due to start-up costs associated with the catalog telephone centers.

Drug Stores

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, with an aggregate of four million square feet of gross selling space, offer typical drug store merchandise, including prescription drugs and health and beauty aid products. Thrift Drug's mail order pharmacy operation services the prescription needs of customers from major organizations by filling prescriptions through the mail. During 1987, 21 drug stores were opened and four were closed. At year end, the Company operated 407 drug stores.

Drug stores' profit declined in 1987 due to a slight decrease in gross margin and the influence of start-up costs associated with the opening of new stores. Profits increased in 1986 and 1985 as a result of higher sales and improved gross margin.

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries at equity (In millions)

	1987	1986	1985
JCPenney Financial Services	\$389	\$363	\$350
JCPenney National Bank	23	74	45
JCP Realty, Inc.	(31)	(31)	(23)
Total	\$381	\$406	\$372

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries, which market life and health insurance and automobile and homeowners casualty insurance. At the end of 1987, there were 149 insurance centers in operation, located primarily in JCPenney stores.

The Company's advances to JCPenney Financial Services were \$11 million in 1987, \$15 million in 1986, and \$14 million in 1985.

JCPenney Life Insurance Company's 1987 net income declined from last year as a result of lower investment gains. JCPenney Casualty Insurance Company recorded net income of \$4 million in 1987, reversing the trend of losses recorded in the last three years. The improvement was attributed primarily to more favorable underwriting experience.

	Year ended December 31		
Summary of insurance operations (In millions)	1987	1986	1985
Premiums earned	\$287	\$301	\$308
Investment income	64	62	52
Total revenues	351	363	360
Benefits, claims, and expenses	318	351	395
Income (loss) before income taxes	33	12	(35)
Income taxes (benefits)	7	(2)	(24)
Net income (loss)	\$ 26	\$ 14	\$ (11)
JCPenney Life	\$ 22	\$ 27	\$ 23
JCPenney Casualty	4	(13)	(34)
Net income (loss)	\$ 26	\$ 14	\$ (11)

	December 31		
Insurance companies' balance sheet (In millions)	1987	1986	1985
Assets			
Investments			
Fixed income, at amortized cost (market: \$490, \$374, and \$308)	\$494	\$364	\$294
Short term, at cost which equals market	22	39	65
Equity, at market (cost: \$60, \$112, and \$108)	51	120	114
Other	13	12	10
Total investments	580	535	483
Deferred policy acquisition costs	187	185	195
Other assets	119	123	168
	\$886	\$843	\$846
Liabilities and equity			
Policy and claims reserves	\$387	\$376	\$396
Income taxes and other liabilities	110	104	100
Due to JCPenney	40	29	14
Equity of JCPenney	349	334	336
	\$886	\$843	\$846

JCPenney National Bank offers primarily Visa and MasterCard credit cards. At the end of the year, about 340 thousand credit cards were issued. During 1987, the Company contributed \$10 million of capital to the bank, and the bank repaid all advances from the Company. Capital contributions and advances to the bank totaled \$28 million in 1986 and \$42 million in 1985. To fund the expansion of its credit card business, in 1987 the bank sold certificates of deposit in certain parts of the country. The bank recorded a small profit in 1987, as compared with breakeven results in both 1986 and 1985.

JCPenney National Bank balance sheet (In millions)	December 31		
	1987	1986	1985
Assets			
Cash and short term investments	\$ 35	\$ 15	\$16
Receivables, net of allowance for doubtful accounts of \$9, \$3, and \$1	247	128	47
Other assets	31	22	23
	<u>\$313</u>	<u>\$165</u>	<u>\$86</u>
Liabilities and equity			
Deposits	\$278	\$ 85	\$45
Other liabilities	12	4	1
Due to JCPenney	—	64	36
Equity of JCPenney	23	12	4
	<u>\$313</u>	<u>\$165</u>	<u>\$86</u>

JCP Realty, Inc. is engaged in the development and operation of real estate through participation in joint ventures.

At year end, JCP Realty had interests in more than 80 projects, primarily regional shopping centers. More than 50 of these were in operation, and the balance were in various stages of development.

JCP Realty recorded profits of \$13 million, \$18 million, and \$22 million in each of the last three years. Included in 1987, 1986, and 1985 results were gains, net of taxes, of \$9 million, \$14 million, and \$19 million, respectively, from sales of its interests in shopping center ventures. JCP Realty has advanced to JCPenney an amount in excess of its equity as follows:

Net investment in JCP Realty, Inc. (In millions)	1987	1986	1985
Amount advanced to JCPenney	\$(127)	\$(114)	\$(88)
Equity of JCPenney	96	83	65
Net investment of JCPenney	\$ (31)	\$ (31)	\$(23)

Assets

Receivables (In millions)	1987	1986	1985
Customer receivables	\$4,213	\$4,291	\$4,233
Less allowance for doubtful accounts	71	79	72
Customer receivables, net	4,142	4,212	4,161
Other receivables	394	402	343
Receivables, net	<u>\$4,536</u>	<u>\$4,614</u>	<u>\$4,504</u>
Merchandise inventories (In millions)	1987	1986	1985
Merchandise inventories, at lower of cost (FIFO) or market	\$2,623	\$2,396	\$2,516
LIFO reserve	(273)	(228)	(218)
Merchandise inventories, at lower of cost (LIFO) or market	<u>\$2,350</u>	<u>\$2,168</u>	<u>\$2,298</u>
Properties (In millions)	1987	1986	1985
Land	\$ 164	\$ 140	\$ 136
Buildings			
Owned	1,430	1,458	1,359
Capital leases	247	247	247
Fixtures and equipment	1,983	1,904	1,814
Leasehold improvements	432	445	407
	<u>4,256</u>	<u>4,194</u>	<u>3,963</u>
Less accumulated depreciation and amortization	1,346	1,275	1,151
Properties, net	<u>\$2,910</u>	<u>\$2,919</u>	<u>\$2,812</u>

Capital expenditures (In millions)	1987	1986	1985
Land	\$ 56	\$ 2	\$ 6
Buildings	62	94	121
Fixtures and equipment	218	207	245
Leasehold improvements	40	47	54
Total capital expenditures	\$376	\$350	\$426

Expenditures to modernize existing stores were \$160 million in 1987, as compared with \$172 million in 1986 and \$219 million in 1985. The increase in capital expenditures for 1987 from the prior year was related to the relocation of the corporate headquarters.

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses (In millions)	1987	1986	1985
Trade payables	\$ 525	\$ 555	\$ 424
Dividend payable	51	46	44
Taxes, including income taxes	244	216	195
Accrued salaries, vacations, profit-sharing, and bonuses	401	394	361
Worker's compensation and public liability insurance	65	74	70
Other	309*	204	188
Total	\$1,595	\$1,489	\$1,282

*Includes provision for relocation of corporate headquarters.

Short term debt (In millions)	1987	1986	1985
Commercial paper	\$ 831	\$ 407	\$ 480
Master notes and other	124	190	260
Short term debt	\$ 955	\$ 597	\$ 740
Average borrowings	\$ 889	\$ 955	\$ 875
Peak outstanding	\$1,922	\$1,257	\$1,210
Average interest rates	6.7%	6.7%	8.0%

Long term debt (In millions)	1987	1986	1985
Original issue discount			
Zero coupon notes and 6% debentures, due 1989 to 1994 and 2006, \$900 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.5%	\$ 488	\$ 436	\$ 390
Debentures and notes			
5.375% to 8.875%, due 1987 to 1998	414	429	339
9% to 9.75%, due 1995 to 2016	831	656	313
10.2% to 11.875%, due 1987 to 1994	239	471	521
12.125% to 13.75%, due 1991 to 1999	295	295	450
11% to 12.375%, due 2010 to 2015	—	—	650
Other	128	144	202
	2,395	2,431	2,865
Present value of commitments under capital leases	213	224	234
Long term debt and commitments under capital leases	\$2,608	\$2,655	\$3,099
Average interest rates	10.9%	11.1%	11.3%

Changes in long term debt (In millions)	1987	1986	1985
Increases			
9% to 11% sinking fund debentures, due 2015 and 2016	\$ —	\$ 350	\$150
8.375% to 10.875% notes, due 1990 to 1998	202	247	202
Amortization of original issue discount	52	46	39
	<u>254</u>	<u>643</u>	<u>391</u>
Decreases			
Retirements from debt restructure program			
Open market purchases, weighted average rate of 12% with maturities of 1990 to 2015	—	562	—
Sinking fund debentures called for redemption, weighted average rate of 11.5% with maturities of 2010 to 2015	—	274*	—
10.75% and 11.875% notes, due 1990, called in 1987	219**	—	—
Other transfers to current maturities of long term debt	—	185*	—
12.375% notes, due 1986, called in 1985	—	—	100
Other	82	66	39
	<u>301</u>	<u>1,087</u>	<u>139</u>
Net increase (decrease) in long term debt	\$ (47)	\$ (444)	\$252

* Included in current maturities.

** During 1987, the Company continued its debt restructure program by calling \$219 million of notes for redemption.

Maturities of long term debt (In millions)	Long term debt	Capital leases
1988	\$ 37	\$ 24
1989	291	24
1990	140	24
1991	246	24
1992	305	24
1993 to 1997	897	103
Thereafter	891	101
Total	<u>\$2,807</u>	<u>324</u>
Less future interest and executory expenses		111
Present value		<u>\$213</u>

Confirmed lines of credit available to JCPenney amounted to \$900 million. None were in use at January 30, 1988.

Stockholders' equity was \$4,173 million at year end 1987 compared with \$4,340 million at year end 1986 and \$4,051 million at year end 1985.

Effective May 1, 1987, the Board of Directors declared a two-for-one stock split in the form of a 100 per cent dividend of the Company's common stock. As a result, approximately 75 million shares were issued and the par value of 50¢ per share, or \$38 million, was deducted from reinvested earnings. All references to shares and per share data in the accompanying financial statements have been restated to reflect the stock split.

In addition, the preferred stock purchase rights which accompany each share of common stock were automatically adjusted in accordance with the rights agreement to entitle the purchase, for each right held, of $\frac{1}{200}$ of a share of Series A junior participating preferred stock at a price of \$75 per $\frac{1}{200}$ of a share. Each share of common stock issued as a result of the stock split described above also included one preferred stock purchase right which reflects the stock split. The rights remain exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

During 1987, the Company announced a stock purchase program to acquire up to 20 million shares, or 13 per cent, of its then outstanding common stock. By the end of the year, the Company had purchased 12.7 million shares at a cost of \$581 million, of which \$494 million was charged to reinvested earnings and the remainder to common stock. All shares were retired and returned to the status of authorized but unissued shares of common stock.

Additionally, in 1987 and 1986, the Company purchased 420 thousand shares and 1.2 million shares, respectively, of its common stock from a Company benefit plan at a cost of \$23 million and \$50 million, of which \$20 million and \$42 million, respectively, were charged to reinvested earnings. All shares were retired and returned to the status of authorized but unissued shares of common stock.

1984 Equity Compensation Plan and Performance Unit Plan. Under the 1984 Equity Compensation Plan, 2.4 million shares of common stock, as well as 3 million shares available under a previous stock option plan, were initially reserved for issuance upon the exercise of options or related stock appreciation rights (SARs) and for payment of stock awards. At year end 1987, 3.6 million shares remained in reserve and were available for grant. Under this plan, ten-year incentive stock options, non-qualified stock options, and SARs and tax benefit rights (TBRs) in tandem with stock options may be granted. Options granted prior to 1987 were exercisable one year from the date of grant. Options granted thereafter generally become exercisable six months from the date of grant.

In 1987, 1986, and 1985, the Company granted SARs and TBRs to officers in tandem with certain stock option grants. With respect to SARs and TBRs, about \$1 million was paid to participants in each of the last two years. Also during 1987, the Company issued to its officers 340 thousand shares of restricted stock awards which vest over a five year period. The awards have conditions and restrictions which are designed to assure that the officers stay in the Company's service and retain stock ownership for many years. These new awards were intended in part to compensate these officers for accepting significant limitations placed on an existing program. In conjunction with these awards, a maximum market price for the Company's stock was established upon the exercise of SARs.

Under the 1984 Performance Unit Plan, performance units are earned based on measurements of Company performance determined by the Personnel and Compensation Committee of the Board of Directors. Approximately \$8 million was earned in 1987 and \$5 million in each of the previous two years.

	1987		1986		1985	
	Shares (In thousands)	Option price	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Stock options						
Balance at beginning of year	1,920	\$12.22-39.82	3,074	\$12.22-29.88	3,288	\$12.22-29.88
Granted	327	47.04-64.63	466	32.32-39.82	588	24.00-24.91
Exercised	(659)	12.22-47.04	(1,572)	12.22-32.32	(432)	12.22-25.97
Expired and cancelled	(10)	14.69-64.63	(48)	14.69-38.41	(370)	14.69-29.41
Balance at end of year	1,578	\$12.22-64.63	1,920	\$12.22-39.82	3,074	\$12.22-29.88

The quarterly dividend, adjusted for the two-for-one stock split in May 1987, was 37 cents per share in 1987, 31 cents per share in 1986, and 29½ cents per share in 1985, or an annual rate of \$1.48 per share in 1987, compared with \$1.24 in 1986, and \$1.18 in 1985. Dividends declared were \$218 million in 1987, \$186 million in 1986, and \$176 million in 1985.

Changes in outstanding common stock	Shares (In thousands)			Amounts (In millions)		
	1987	1986	1985	1987	1986	1985
Balance at beginning of year	149,640	149,154	148,742	\$961	\$929	\$922
Two-for-one stock split	—	—	—	38	—	—
Common stock issued	1,833	1,734	412	51	40	7
Common stock purchased and retired	(13,085)	(1,248)	—	(90)	(8)	—
Balance at end of year	138,388	149,640	149,154	\$960	\$961	\$929

There were approximately 58 thousand stockholders of record at year end 1987. One of these stockholders was the savings and profit-sharing retirement plan which had 97 thousand participants and held 19.7 million shares of the Company's common stock, representing approximately 14 per cent of the shares outstanding.

Additional Financial Data

	1987		1986		1985	
	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales
Credit sales						
JCPenney credit card	\$7.3	49.2	\$7.0	50.0	\$6.5	49.2
American Express, MasterCard, and Visa	1.3	9.2	1.2	8.2	1.1	8.2
Total	\$8.6	58.4	\$8.2	58.2	\$7.6	57.4

Approximately 87 per cent of sales on the JCPenney credit card were made in accordance with the regular plan and the balance in accordance with the major purchase plan.

At year end, the number of JCPenney credit card accounts with outstanding balances was 16 million under the regular plan and 2.2 million under the major purchase plan. The average balances and maturities are shown in the table below:

	Average account balances			Average maturities (In months)		
	1987	1986	1985	1987	1986	1985
Regular plan	\$189	\$192	\$200	4.0	4.4	4.5
Major purchase plan	\$523	\$521	\$503	9.9	10.4	10.8
All	\$230	\$233	\$238	4.9	5.2	5.3

Key JCPenney credit card information (In millions)	1987	1986	1985
Customer receivables			
Regular plan	\$3,064	\$3,110	\$3,122
Major purchase plan	1,149	1,181	1,111
Total customer receivables	\$4,213	\$4,291	\$4,233
Number of accounts with balances	18.2	18.3	17.6
Finance charge revenue	\$ 676	\$ 703	\$ 671
Net bad debts written off	\$ 167	\$ 153	\$ 101
Per cent of customer charges	2.1	2.0	1.4
Provision for doubtful accounts	\$ 159	\$ 160	\$ 109
Accounts 90 days or more past due as a per cent of customer receivables	2.1	2.5	2.1

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was \$451 million in 1987, as compared with \$445 million in 1986 and \$442 million in 1985.

Interest expense (In millions)	1987	1986	1985
Short term debt	\$ 59	\$ 64	\$ 70
Long term debt	258	314	313
Income on short term investments	(24)	(27)	(22)
Other, net	7	(1)	9
Interest expense, net	\$300	\$350	\$370

Rent expense (In millions)	1987	1986	1985
Minimum rent on noncancellable operating leases	\$193	\$190	\$195
Rent based on sales	42	42	45
Minimum rent on cancellable personal property leases	115	116	113
Real estate taxes and common area costs	94	95	82
Total	\$444	\$443	\$435

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancellable leases and subleases (In millions)	Gross rents	Net rents*
1988	\$ 189	\$ 123
1989	183	118
1990	172	111
1991	164	105
1992	156	101
Thereafter	1,489	1,017
Total	\$2,353	\$1,575
Present value		\$ 800
Weighted average interest rate		10%

*Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

Retirement plans (In millions)	1987	1986	1985*
Pension			
Service cost	\$ 39	\$ 30	
Interest cost	80	66	
Actual return on assets	(78)	(137)	
Amortization	(49)	19	
Pension credit	(8)	(22)	\$ (4)
Savings and profit-sharing expense	50	51	40
Total	\$ 42	\$ 29	\$ 36

*Breakdown of pension credit not available.

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. Benefits under the principal pension plan are 1.5 per cent of final average pay for each year of credited service to normal retirement age up to a maximum of 30 years, less up to 50 per cent of an employee's estimated Social Security benefit, as computed under the plan.

The following table sets forth the funded status of the principal pension plan and the supplemental retirement program:

	December 31		
Pension plans funded status (In millions)	1987	1986	1985
Present value of accumulated benefits			
Vested	\$ 615	\$ 564	\$486
Non-vested	73	60	30
	<u>\$ 688</u>	<u>\$ 624</u>	<u>\$516</u>
Present value of actuarial benefit obligation	\$ 934	\$ 866	\$627
Net assets at fair market value	1,071	1,019	903
Excess assets	<u>\$ 137</u>	<u>\$ 153</u>	<u>\$276</u>
Key assumptions			
Actuarial method	PUC*	PUC*	PUC*
Rate of return on plan assets	9.5%	9.5%	9.5%
Discount rate	9.5%	9.0%	9.5%
Salary progression rate	6.0%	6.0%	6.0%

*Projected unit credit.

The present value of accumulated benefits is based on compensation and service to date. The present value of the actuarial benefit obligation considers estimates of future compensation, but not future service, and is used to determine pension expense (credit) and funding. No contribution was required or made in the past three years.

Certain changes in plan assets and in the actuarial benefit obligation are not recognized as they occur. In addition, at the date of adopting Financial Accounting Standard No. 87, the Company had an unrecognized excess of plan assets over the actuarial benefit obligation. These unrecognized changes more than offset the end of year excess of plan assets over the actuarial benefit obligation of \$137 million and are systematically amortized over subsequent periods.

The savings and profit-sharing retirement plan encourages savings by employees through the allocation of 4.5 per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that of the Company's principal pension plan.

The Company contributed approximately \$8 million in 1986 and \$9 million in 1985 to the savings and profit-sharing retirement plan under the Employee Stock Ownership feature of the Internal Revenue Code. The contributions were invested in Company common stock and allocated equally among all eligible employees. The amount of the contribution reduced Federal income taxes otherwise payable. The Tax Reform Act of 1986 eliminated this Employee Stock Ownership feature effective December 31, 1986, and, accordingly, no contribution was made in 1987.

The Company provides post-retirement health care benefits to retired employees and their dependents meeting certain eligibility requirements. The Company recorded expenses for these benefits as incurred in the amounts of \$11 million, \$9 million, and \$7 million in 1987, 1986, and 1985, respectively.

Total assets and equity (In millions)	Savings and profit-sharing			Pension		
	December 31			December 31		
	1987	1986	1985	1987	1986	1985
JCPenney common stock (20, 20, and 24 million shares at cost: \$511, \$442, and \$500)	\$ 856	\$ 731	\$ 663	\$ —	\$ —	\$ —
Funds with insurance companies	681	604	391	—	—	—
Equity securities (cost: \$19, \$21, \$20, \$780, \$643, and \$521)	40	43	36	815	743	624
Fixed income investments (cost: \$7, \$6, \$3, \$161, \$161, and \$173)	7	6	3	156	165	181
Real estate (cost: \$84, \$84, and \$81)	—	—	—	99	103	98
Other assets, net	54	40	50	1	8	—
Net assets	<u>\$1,638</u>	<u>\$1,424</u>	<u>\$1,143</u>	<u>\$1,071</u>	<u>\$1,019</u>	<u>\$903</u>

Changes in fair value of retirement plans' net assets (In millions)	Savings and profit-sharing			Pension		
	December 31			December 31		
	1987	1986	1985	1987	1986	1985
Net assets at beginning of year	\$1,424	\$1,143	\$ 922	\$1,019	\$ 903	\$737
Company contribution	50	51	40	—	—	—
Participants' contributions	112	120	102	—	—	—
Investment income	142	115	70	156	142	97
Unrealized appreciation (depreciation) of investments	103	168	116	(78)	(5)	86
Benefits paid	(193)	(173)	(107)	(26)	(21)	(17)
Net assets at end of year	<u>\$1,638</u>	<u>\$1,424</u>	<u>\$1,143</u>	<u>\$1,071</u>	<u>\$1,019</u>	<u>\$903</u>

Income tax expense (In millions)	1987	1986	1985
Current			
Federal	\$ 413	\$140	\$ 76
State and local	55	15	8
	<u>468</u>	<u>155</u>	<u>84</u>
Deferred			
Federal	(106)	240	187
State and local	(6)	33	26
	<u>(112)</u>	<u>273</u>	<u>213</u>
Total income tax expense	<u>\$ 356</u>	<u>\$428</u>	<u>\$297</u>
Effective tax rate	38.5%	46.3%	43.5%

Reconciliation of tax rates	Amounts (In millions)			Per cent of pre-tax income		
	1987	1986	1985	1987	1986	1985
Federal income tax statutory rate	\$361	\$426	\$314	39.0	46.0	46.0
Investment tax credits	—	(7)	(26)	—	(.8)	(3.7)
State and local income taxes, less Federal income tax benefit	30	26	18	3.2	2.8	2.7
Employee stock ownership plan credits	—	(8)	(9)	—	(.9)	(1.3)
Reduction of deferred taxes on installment sales*	(17)	—	—	(1.8)	—	—
Capital gains benefits and other	(18)	(9)	—	(1.9)	(.8)	(.2)
Total income tax expense	<u>\$356</u>	<u>\$428</u>	<u>\$297</u>	<u>38.5</u>	<u>46.3</u>	<u>43.5</u>

*Resulting from payment of taxes on installment sales previously deferred at higher tax rates in the financial statements.

Taxes other than income taxes, over half of which were payroll taxes, totaled \$322 million in 1987, as compared with \$326 million in 1986 and \$295 million in 1985.

Deferred taxes consist principally of deferred gross profit on the balances due on installment sales, accelerated depreciation, and accounting for leases.

The Company acquired certain assets under leveraged lease arrangements and purchased tax benefits under the provisions of the Economic Recovery Tax Act. For income tax purposes, the Company received certain income tax deductions and credits that were used to reduce income taxes otherwise payable. Deferred taxes were provided to reflect the reversal of these tax benefits in future years.

The Tax Reform Act of 1986 eliminated the deferral of income taxes on revolving credit installment sales after fiscal year 1986 and provided that deferred taxes previously established were to be paid over the period 1987 to 1990 in installments of 15, 25, 30, and 30 per cent. At the end of fiscal year 1987, the balance of deferred taxes on installment sales reflected on the balance sheet was \$500 million. The amount due within one year is shown in the current portion of deferred taxes at the prevailing statutory rate and is approximately \$40 million less than the amount originally provided in the financial statements. Accordingly, income tax expense in fiscal year 1988 will be reduced by that amount.

The Financial Accounting Standards Board issued Statement No. 96 (Accounting for Income Taxes) at the end of 1987. This standard requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). The standard allows a transition period which permits adoption as early as 1987 but provides flexibility for adoption in 1988 or 1989. The Company did not adopt this new standard in 1987. Under the accounting rules, deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. If the liability method had been applied in 1987, deferred taxes reflected on the balance sheet would have been reduced by approximately \$270 million, and stockholders' equity would have increased by the same amount. The accounting standard permits either a restatement of previously issued financial statements or the inclusion of the cumulative effect of changing to the new standard as a separate component of net income in the year the standard is adopted.

Quarterly Data (Unaudited)											
(In millions except per share data)											
	First			Second			Third			Fourth	
	1987	1986	1985	1987	1986	1985	1987	1986	1985	1987	1985
Sales	\$3,224	3,045	2,802	3,409	3,221	3,014	3,756	3,485	3,245	4,943 *	4,686
Per cent increase (decrease)	5.9	8.7	1.8	5.8	6.9	(1.4)	7.8	7.4	1.1	(0.9)	5.8
Gross margin, per cent of sales	35.8	34.4	33.7	32.9	31.8	31.2	34.8	34.4	34.2	32.3	32.3
Selling, general, and administrative expenses, per cent of sales	26.7	26.4	27.4	26.3	26.3	26.7	25.4	25.9	26.3	21.7	22.0
Income before nonrecurring and extraordinary items	\$ 136	87	50	103	57	30	171	116	93	296	224
Per cent increase (decrease)	55.8	73.1	(26.6)	81.0	92.9	(40.4)	47.6	24.5	(7.4)	9.6	3.8
Net income	\$ 54	63	50	103	46	30	171	116	93	280	224
Per share											
Income before nonrecurring and extraordinary items	\$.91	.58	.34	.68	.38	.20	1.14	.77	.62	2.04	1.50
Net income	\$.36	.42	.34	.68	.30	.20	1.14	.77	.62	1.93	1.50
Dividends	\$.37	.31	.29	.37	.31	.29	.37	.31	.29	.37	.29
Common stock price range											
High	\$ 52	36	26	60	43	26	65	42	25	48	29
Low	\$ 40	29	23	46	34	23	38	35	23	38	24

*1987 consisted of 13 weeks compared with 14 weeks for the 1986 period. Also, the Belgian operations were sold in November 1987.

Five Year Financial Summary

J.C. Penney Company, Inc. and Consolidated Subsidiaries

Results for year (In millions)	1987	1986	1985	1984	1983
Sales	\$15,332	14,740	13,747	13,451	12,078
Sales of JCPenney stores and catalog	\$13,980	13,390	12,634	12,372	11,033
Per cent increase	4.4	6.0	2.1	12.1	6.5
Per cent increase in general merchandise inflation	2.8	1.2	2.0	1.0	2.7
Gross margin, per cent of sales	33.8	33.6	32.8	32.9	33.3
Selling, general, and administrative expenses, per cent of sales	24.7	25.0	25.1	25.1	24.6
Interest, net, per cent of sales	2.0	2.3	2.7	2.6	2.2
Depreciation and amortization	\$ 241	229	212	198	153
Retail income before income taxes and nonrecurring items	\$ 1,097	925	683	697	786
Per cent of sales	7.1	6.3	5.0	5.2	6.5
Income taxes	\$ 356	428	297	290	345
Retail income before nonrecurring items	\$ 667	497	386	407	441
Per cent increase (decrease) from prior year	34.0	28.8	(5.1)	(7.7)	9.0
Per cent of sales	4.3	3.4	2.8	3.0	3.7
Income before nonrecurring and extraordinary items	\$ 706	530	397	435	467
Per cent of stockholders' equity	16.3	13.1	10.4	12.2	14.5
Net income	\$ 608	478	397	435	467
Per share					
Income before nonrecurring and extraordinary items	\$ 4.77	3.53	2.66	2.90	3.13
Net income	\$ 4.11	3.19	2.66	2.90	3.13
Dividends	\$ 1.48	1.24	1.18	1.18	1.08
Stockholders' equity	\$ 30.15	29.00	27.16	25.63	23.97
Financial position (In millions)					
Receivables, net	\$ 4,536	4,614	4,504	4,019	3,673
Merchandise inventories	\$ 2,350	2,168	2,298	2,383	1,993
Properties, net	\$ 2,910	2,919	2,812	2,608	2,358
Capital expenditures	\$ 376	350	426	505	443
Total assets	\$10,842	11,188	10,522	9,793	8,860
Total debt	\$ 3,563	3,736	3,839	3,774	3,149
Stockholders' equity	\$ 4,173	4,340	4,051	3,812	3,559
Number of shares outstanding at year end (In millions)					
	138	150	149	148	148
Weighted average shares outstanding at year end (In millions)					
	148	150	150	150	149
Number of employees at year end (In thousands)					
	181	176	177	180	175

Five Year Operations Summary

J.C. Penney Company, Inc. and Consolidated Subsidiaries

	1987	1986	1985	1984	1983
JCPenney metropolitan market department stores					
Number of stores	577	574	566	565	553
Gross selling space (In million sq. ft.)	89.2	89.6	88.8	88.5	85.8
Sales (In millions)	\$10,646	10,150	9,524	9,200	8,082
Sales per gross square foot	\$ 118	114	107	106	95
JCPenney metropolitan market soft line stores					
Number of stores	122	133	163	184	201
Gross selling space (In million sq. ft.)	6.2	6.5	7.9	8.7	9.5
Sales (In millions)	\$ 817	851	858	893	906
Sales per gross square foot	\$ 135	120	103	98	92
JCPenney geographic market stores					
Number of stores	679	696	753	821	843
Gross selling space (In million sq. ft.)	18.2	18.4	18.8	19.2	19.0
Sales (In millions)	\$ 1,965	1,887	1,783	1,820	1,637
Sales per gross square foot	\$ 106	101	93	95	86
Catalog					
Number of sales facilities	1,837	1,825	1,733	1,804	1,799
Number of distribution centers	6	6	6	6	6
Distribution space (In million sq. ft.)	11.4	11.4	11.4	11.4	11.4
Sales (In millions)	\$ 2,585	2,332	2,000	1,928	1,831
Drug stores					
Number of stores	407	390	374	369	359
Gross selling space (In million sq. ft.)	4.2	4.1	4.0	3.9	3.8
Sales (In millions)	\$ 875	802	702	649	586
Sales per gross square foot	\$ 215	204	180	170	157
Number of JCPenney stores	1,378	1,403	1,482	1,570	1,597
Number of total stores	1,785	1,793	1,856	1,939	1,956

Catalog sales made through JCPenney stores and drug stores are included in the sales of those stores as well as in Catalog. Sales per gross square foot include only those sales from stores in operation throughout both the current and prior year.

Not reflected above are statistics for the Company's Belgian operations, which were sold in 1987.

Public Affairs

In 1987, charitable contributions increased to \$14.5 million from \$12.8 million in 1986. Approximately 70 per cent of last year's contributions were made to local community programs by JCPenney stores and other facilities, and the remainder went to national organizations that impact communities in which the Company operates. JCPenney employees pledged an additional \$5.3 million to local United Ways through payroll deductions and one-time gifts.

We encourage and support the volunteer efforts of our employees through such programs as the annual Community Service Awards, which provide winners with personal recognition and their community organizations with contributions. The Golden Rule Awards Program, which was conducted in 24 markets in 1987, provides the same recognition to volunteers outside the Company. The first National Golden Rule Award winners were selected in 1987, and the Company contributed \$45,000 to their organizations.

In the area of minority affairs, the Company continued to expand its commitment to the purchase of merchandise and services from minority owned companies. During 1987, minority purchases increased 30 per cent to \$253.1 million, representing relationships with 1,453 suppliers.

As part of JCPenney's internal restructuring, the regional managers of the five geographical sections of the country into which the Company is divided were elected as regional presidents. These appointments reinforce the importance of regional identities in our retailing operations and in our overall organization. The objective is to enable each region, and the districts and stores within the region, to respond more effectively to local conditions such as department store competition, customer needs, and climate and lifestyle differences. The regional presidents are shown below with some of the consistent winners of the Chairman's Award of Excellence. These awards are presented annually in recognition of the achievement of return on equity objectives.



Eastern Region: Richard C. Sherwood, regional president of JCPenney stores (center), holding the clock that is presented to first time winners of the Chairman's Award, with (left to right) Frederick T. Zumpano, store manager, West Mifflin, PA; Robert J. Calik, store manager, Monroeville, PA; Jerrid A. Remaley, district manager, Eastern region; Eugene H. Renner, store manager, Youngstown, OH.



Southeastern Region: R.H. Seaman, regional president of JCPenney stores (second from left), with (left to right) W. Allen Daggett, district manager, Southeastern region; Robert E. Hutchins, store manager, Pompano Beach, FL; Edmon L. Enfield, store manager, West Palm Beach, FL; Chadwick W. Cowan, store manager, Hialeah, FL; Joe A. Cattaneo, store manager, Plantation, FL.



Central Region: John T. Cody, Jr., regional president of JCPenney stores (right), with (left to right) Deloy A. Hansen, geographic district manager, Saginaw, MI; Robert F. Lyon, store manager, Merrillville, IN; Eugene C. Dahlquist, store manager, Roseville, MN.



Southwestern Region: Terry S. Prindiville, regional president (center), with L.E. Joines, store manager, McAllen, TX; Leslie D. Kennedy, district manager, Southwestern region; Jack D. Haines, store manager, Wichita, KS; Raymond E. Moline, store manager, Salina, KS.



Western Region: James E. Oesterreicher, regional president (third from left), with (left to right) William A. Wiecking, store manager, Santa Rosa, CA; Wallace J. Paprocki, store manager, Montclair, CA; Carmen F. Murphey, store manager, Sunnyside, CA; John A. Backlund, district manager, Western region; Thomas E. Johnston, store manager, Tacoma, WA.



Thrift Drug/Executive Committee: (seated, left to right) Robert W. Hannan, president; Anthony N. Civello, executive vice president of retail operations; (standing, left to right) Enzo Cerra, senior vice president of merchandise and distribution; Edward C. Metting, senior vice president of finance; Francis A. Marasco, senior vice president of human resources and new businesses.



JCPenney Insurance Companies: Joseph J. DeMelio, corporate vice president and director of insurance (third from left), with the senior management of JCPenney Insurance Companies: (left to right) Donald S. Creveling, manager of personnel and administration; Alice T. McLarnon, president, JCPenney Casualty Insurance Company; John E. Fesperman, executive vice president and director of sales and marketing; Fred A. Williams, president, JCPenney Life Insurance Company; Donald B. Christensen, manager of finance and planning.

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